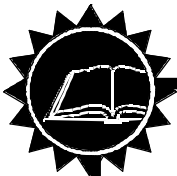


Session 4

Master Promissory Note



RESOURCES

1999-2000 Student Aid
Handbook:

FFEL and Direct Loans,
pgs. 13, 18

Code of Federal Regulations:

Sections 682.401, 685.402

Higher Education Act:

Section 432(m)(1)(D)

Public Law 105-244:

Section 427(c)(1)(D)

Department of Education
guidance:

GEN 98-25, GEN 99-8,
GEN 99-9, GEN 99-11,
99-G-319, GEN 99-30,
DLB 99-14, DLB 99-15, DLB 99-16,
DLB 99-19, DLB 99-21, DLB 99-22,
DLB 99-32, DLB 99-34, DLB 99-46
DLB 99-53, DLB 99-57



Session 4: Master Promissory Note

4-1



Session 4: Learning Objectives

At the end of this session, you will know:

- About the MPN generally
- Length of time note is valid
- Terms of the note
- Borrower notification
- Multi-year function

4-2

MPN: Background

- Higher Education Amendments of 1998 authorized MPN
- ED issued guidance in late 1998 and 1999
- Direct Loan schools required to use MPN for 1999-2000
- All schools required to use MPN 2000-2001

4-3

The MPN has been available for loan periods beginning on or after July 1, 1999, and Direct Loan schools were required to use it during the 1999-2000 award year. Schools participating in the FFEL program were able to use it as well, but were not required to do so. The MPN form must be used for all Federal Stafford Loans beginning with the 2000-2001 academic year (for loan periods beginning on or after July 1, 2000 and for any loan certified on or after July 1, 2000, regardless of loan period).

Using the MPN

- Initially, multi-year lending available at all four-year and graduate/professional schools
 - ED will have discretion to include or exclude schools
- Eligible schools can choose whether to participate
- Participating schools can require some or all students to sign new note each year

4-4

Four-year and graduate/professional schools are generally eligible to participate in multi-year lending if they are not subject to a proposed or final limitation, suspension, or termination or emergency action.

Using the MPN

- MPN expires upon the earliest of:
 - The date the lender or school receives written notification asking that the MPN no longer be used
 - After twelve months if no disbursements were ever made
 - After ten years (remaining disbursements can be made)

4-5

Using the MPN

- Same MPN used when school or guarantor changes
- Change in lender requires new MPN unless lender changes because of merger or acquisition

4-6

Students may borrow additional funds under the same MPN regardless of any changes in school or, under the FFEL program, a change in guarantor, providing that the new school is a multi-year eligible institution and the lender and/or school are participating in multi-year lending. A change in lender will require a new MPN, unless the lender changes as a result of a merger or acquisition. Also, if a student changes schools, and goes from the Direct Loan Program to the FFEL Program (or vice versa) as a result, he or she will be required to complete a new MPN, as a change in lender has occurred.

Using the MPN

- Student is in control of borrowing by:
 - Filling out MPN
 - Participating in active or passive confirmation process

4-7

The Master Promissory Notes and their accompanying material can be found in Appendix A.

MPN Features

- Borrower certifications and authorizations moved to the front of form
- All school certification information, including the amount of the loan(s), removed from promissory note
- Print specifications simplified and improved

4-8

Using the MPN

- Instructions
- Note
- Borrower's Rights and Responsibilities Statement
- Confirmation process (active or passive)
- Plain Language Disclosure

4-9

Active Confirmation is a process whereby action is taken by the borrower to confirm the proposed loan type or types and the proposed amount of the loan or loans to request a specific loan amount. A school or lender may elect to establish an active confirmation process for the entire loan or may elect to require the student to confirm each disbursement of the loan.

Passive Confirmation is a process whereby the school, lender, and/or guarantor notifies the borrower of the proposed loan package and the borrower is only required to take action if he or she wants to reject or make adjustments to the types and/or amounts of the loans.

[illegible]

4-10

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The MPN Process—An Overview

The MPN streamlines the delivery of loan funds for both students and aid administrators. Although specific process likely will vary by institution and will be a bit different for the FFEL and Direct Loan Programs, the general process flows through the following steps, which are applicable to both loan programs.

Step 1

The student fills out the FAFSA (or a Renewal FAFSA).

Step 2

The school determines the student's eligibility for federal student loans and packages the loan(s) requested. This step must be completed annually (assuming the student applies for aid annually).

Step 3

The student completes the Master Promissory Note (MPN) for the initial loan. Thereafter, a borrower attending an institution authorized to use multi-year lending does not need to complete a new MPN for subsequent loans, although the borrower must participate in the school's confirmation process.

Step 4

For FFEL loans, the school certifies the student's loan eligibility and notifies the lender or guaranty agency. For Direct Loans, the school originates the loan.

Step 5

In the FFEL Program, the loan is approved by the lender and guaranteed by a guaranty agency. In the Direct Loan Program, the school submits an origination record to the LOC.

Step 6

Loan proceeds are delivered/dispensed to the borrower.

Step 7

Either at or prior to the first disbursement, the borrower is provided with a disclosure statement. This statement includes specific information about loan type(s), loan amount(s), anticipated disbursement date(s), and instructions on how to cancel the loan(s). In the FFEL program, the disclosure statement is provided by the lender or guarantor. In the Direct Loan Program, the disclosure statement comes from either the school or the LOC.

Session 4: Case Studies



4-11

**Using an MPN for a first-time freshman, student loan borrower
enrolled at a public, 4-year institution
that participates in FFELP**

1. We've noted that how multi-year lending is going to be handled needs to be considered in developing HCC's processes. But, there are many other issues to consider. In an effort to keep the student borrower informed, the Department requires the use of a specific process. What is it and who must be involved in the process?

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Case Study 4-3: Joseanne Carr

Using an MPN for a former Direct Loan borrower transferring to a 4-year private school that participates in FFELP

Joseanne Carr has been going from one school to another. Now, she is attending Elite College of the South (ECS), a private four-year school that participates in FFELP. Joseanne knows that private schools can be costly and that she doesn't qualify for need-based and merit aid. So, she is resigned to having to take out a student loan in order to attend ECS, although she very much dreads having to apply for a student loan.

The four-year public school Joseanne attended most recently, Prestigious Midstate University (PMU), is a Direct Loan school that implemented use of the MPN for the 1999-2000 academic year and is eligible to use the MPN's multi-year feature. During the fall semester, Joseanne had the scare of her life (an inheritance she was expecting was delayed) and thought she was going to have to take out a student loan to pay for her expenses. She went to PMU's financial aid office, asked for a student loan, and even signed the MPN. But, before the loan was disbursed, her inheritance came through and she asked that the loan be cancelled.

1. If Joseanne had stayed put at PMU, and if she needed to borrow at some point in the future, would she have been able to use the original MPN she signed?
2. When does the multi-year feature of the MPN expire?
3. Because Joseanne transferred to ECS from PMU before the MPN she signed at PMU expired, does she have to sign a new MPN to borrow at ECS?



Case Study 4-5: O.P. Rawinfree

Using an MPN for a first-time freshman, student loan borrower, attending a 2-year nursing school

A first-year nursing student, O.P. Rawinfree is enrolled at the prestigious Florence Nightingale School of Nursing (FNSN), a clock-hour school whose nursing program takes two academic years to complete. FNSN participates in FFELP and has not been authorized to use the multi-year feature of the MPN.

Before applying to FNSN, O.P. and her parents determined that she could afford to attend only if both she and her father take out loans each academic year. Let's assume that O.P. has financial need and that she receives a Subsidized Stafford Loan for both academic years of her program.

1. Will O.P.'s father need to sign a note for each of the two PLUS loans he anticipates having to take out?
2. Are the regulations concerning the MPN the same for clock-hour and credit-hour schools? For term-based and non-term based programs?
3. Will O.P. have to sign another MPN for year two?
4. O.P.'s best friend, Graham, transferred from another nursing school that participated in the FFEL Program so that they could attend together. Graham signed an MPN at his previous school, which used the multi-year feature, and he is going to keep the same lender at FNSN. Will he have to sign a new MPN?
5. Let's say, for the sake of argument, that FNSN is authorized to use the multi-year feature of the MPN. In that case, would Graham have to sign a new MPN at FNSN?

Case Study 4-6: Posie O'Connell

**Using an MPN for a student loan borrower
who moves up a grade level at mid year
and requests an additional loan**

Posie O'Connell attends Best of the West University (BWU), a four-year public university that participates in FFELP and is authorized to use the multi-year feature of the MPN. Although the MPN is being used, BWU elected to use the multi-year feature only for incoming freshmen and new transfer students. All other students at BWU must sign a new MPN each academic year.

At the beginning of the fall semester of her third year at BWU, Posie had completed enough credits to allow her to borrow only at the second-year level. So, she requested the maximum of \$3,500.00 and signed an MPN. In January, after she had earned enough credits to move up to the third-year level, she requested an additional \$1,000.00.

1. Is BWU out of compliance by having different policies in the use of the MPN for new and returning students?
2. Because BWU doesn't use the multi-year feature of the MPN for returning students, must Posie sign an additional MPN when she requests the additional \$1,000.00 loan at mid year?

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Session 4: Brain Candy



4-12



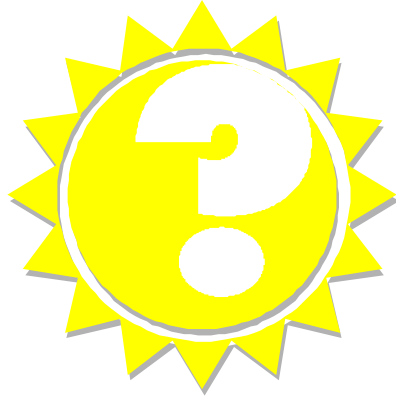
Session 4: Review

In Session 4, we talked about:

- The length of time for which an MPN is valid
- Terms of the Note
- The multi-year function of the MPN
- Other elements of the MPN
- Forms, instructions and other statements important to the borrower
- The confirmation processes (active and passive)

4-13

Session 4: Questions



4-14
